

GAS DISTRIBUTION PRICE CONTROL REVIEW – THIRD CONSULTATION DOCUMENT – RESPONSE FROM THE FUEL POVERTY ADVISORY GROUP

This note briefly covers the overall level of charges and then discusses gas network extensions.

Overall Price Levels

We share the concerns of the Public Accounts Committee about the importance of securing benefits from the sale by National Grid of the LDZs. We appreciate the challenges in setting the price control. But it is very important that there is more of a balance between the interests of customers, including low income customers, and those of the company and the City than there was in the One Year Distribution Price Control and in the transmission price control.

It almost appears on the face of it, from the One Year Price Control, as if the major impact of the sale of the LDZs has been that four companies are now making the arguments that would have been made by one company and Ofgem is more susceptible to this. We hope that this will be proved wrong by a much more robust attitude in the 5 year control and that we will begin to see some benefits from the sale of the LDZs.

In particular we would underline that as a result of the One Year Gas Distribution Price Control, charges in 2007/8 will be as much as 14.5% (nominal) and 11.5% (real) above the 2006/7 allowed levels. This is really troublesome and this high starting point for charges needs to be borne in mind in setting the Five Year Control. We would highlight again the importance of the cost of capital; pensions; and the large increases proposed in capex/repex/opex by the GDNs without any clarity on the causes.

We also expressed concerns in our response to the One Year Gas Distribution Price Control about the lack of control and apparent ease of passing on costs – so greater transparency is needed, for example greater visibility on under- and over-spends as they build up and more questioning of any cost increases.

Gas Network Extensions

On the hand we very much welcome Ofgem's positive approach on gas network extensions. A combination of 5 or 6 with option 3 seems to us to be sensible. As previously noted we do not have the expertise to judge between the alternatives. We would look for a marked impact on gas network extensions to communities with a significant proportion of low income houses, clearly at the lowest cost feasible.

We are attaching for ease of reference our previous submission, which sets out some of the broad issues. We have a few detailed comments:

- ◆ In Footnote 7, Appendix 6, Page 23 you quote some data which are attributed to us. These appear to be based on our supplementary submission to the previous consultation, which is attached. However, it is not quite clear how the numbers were derived from this table. More important it does not seem to be right to use the heating costs for a flat were used for off-gas areas. A semi-detached house would probably be more appropriate. Similarly any gas system installed as a result of a gas network extension would be a new system so the appropriate figure for gas – for a condensing boiler which is now mandatory - would be £366. If these are compared to new systems for other fuels the appropriate numbers seem to be £450 for oil, £825/£936 for LPG and £581 for electricity. We would be happy to discuss this further if that will be helpful.

- ◆ Whilst this approach to social benefits is helpful, it seems to us to understate the Social Benefits. The Government has statutory targets to eradicate fuel poverty as the Ofgem consultation document recognises. If the gas network is not extended, alternative and expensive measures for achieving the targets will be needed, e.g. household scale renewables or long term price subsidies. The cost of these alternatives might just be considered as a good measure of the social benefits. You might want to calculate the benefits on both bases. Again we will be very pleased to have further discussions on this if that would help.
- ◆ As set out in our previous response Option 1 – No Regulatory intervention because the key barrier is lack of coordination – does not on its own seem to us to be defensible. The Design and Demonstration Unit has, as noted, done a huge amount to coordinate the work and has secured some funding, but has highlighted the lack of adequate funding for the network extensions themselves as a key obstacle. We are pleased that this seems to have been recognised and that Option 1 is regarded as a possible complementary measure rather than as a solution in its own right.
- ◆ It is worth underlining two other developments since the previous Consultation:
 - The weakening gas market clearly strengthens the case for gas network extensions and increases the impact of such extensions in reducing the bills of customers, including low income customers.
 - The Government has again demonstrated its commitment on fuel poverty by providing, through the Pre-Budget Report, £7.5M for area based approaches to fuel poverty. This is clearly not a substitute for the possible Ofgem approach to incentivising gas network extensions. But some of the money might be used in conjunction with other funding sources for gas network extensions, and this funding demonstrates the Government support for community approaches of the kind needed for gas network extensions.

We look forward to discussing these issues further with Ofgem.

26 January 2007